Chapter VI. Special Focus on Default Management

Survey reviews of institutions with high FFEL default rates will also focus on default management. Applicable default measures must be examined at institutions with high default rates during survey reviews.

During the survey review of a high default institution, the reviewer should examine the following items for the default management focus:

- High withdrawal rate
- Consumer disclosure information inadequate
- FFEL entrance and exit counseling not conducted
- FFEL lender not notified of withdrawal
- Inconsistent information
- Appendix D - high default schools

Each year the institution receives notification from ED of its fiscal year cohort default rate on loans to students for attendance at that institution under the FFEL Stafford and Supplemental Loan for Students programs. The Institutional Profile will state the three most recent fiscal year cohort default rates and the dates of notification.

Institutions are not responsible retroactively for complying with the requirements associated with a revised/recalculated rate. However, once notified of the revised rate, the institution must immediately comply with the applicable default rate measures. When determining the notification date, reviewers should allow no more than ten days from the date of the notification letter. If the notification letter issuance date has month and year only, the reviewer should allow ten days from the last day of the month.

For some of the regulatory provisions, the applicable default measures that apply to each rate are to be implemented immediately upon notification of the new rates. In other instances, appropriate measures must be implemented within 60 days from the date the school was notified of its new rate. Use the Default Review Checklist (Appendix H) to determine whether the institution has implemented the applicable default measures for each rate.

If it is found that an institution changes its status through branching, consolidation, change of ownership, or other means, but no revision to the cohort default rate is shown in IDS, be sure to contact the Default Management Section (DMS) with the names of the locations and the appropriate School ID number. Rules governing changes in status are prescribed in the April 29, 1994 Student Assistance General Provisions, Interim Final Rule Regulations, 34 CFR 668.15. DMS will review the information provided and notify the reviewer and the school if a revision to the cohort default rate is necessary.

NOTE: The institution must use the appropriate FFEL School ID number on the loan applications it certifies. If a branch campus becomes freestanding, it must use its new school identification number.

IRB Procedure Memo: IRB-91-15

Deficiency Codes: GEN 2371, FFEL 5030, 5040, 5060, 5130, 5131 and 5140

Enclosure B: Information on FY 1992 School Cohort Default Rates

(Enclosure B above describes the methods of calculation for FFEL cohort default rates, institutional requirements for various default rates, and appeal procedures. Consult staff in the Default Management Section if more information is needed.)

DEFAULT RATE TERMS AND DEFINITIONS:

ACTUAL: The original cohort default rate calculated for institutions based on the data provided by the guaranty agency for a given fiscal year.

RECALCULATED: A revised cohort default rate that was calculated due to incorrect data submitted by some guaranty agencies and, for the FY 1988 default rates, the deletion of some loans that were serviced by United Education Software (UES).

CONTESTED: A revised cohort default rate that was calculated based on information submitted by an institution, and verified by the appropriate guaranty agency that erroneous data existed in the original data used in the calculation.

SUBSTITUTED: A cohort default rate that replaces an actual calculation due to a change in institutional status. When an institution changes from a location (branch), or if one school is to become a freestanding institution, it is subject to the default rate of its former parent institution. This is accomplished by applying the actual default rate calculated for the former parent to the new freestanding school.

MERGED: A cohort default rate that replaces an actual calculation due to a change in institutional status. However, this calculation is performed by adding all borrowers and default data together and computing one new rate for all locations to use. Merged rates are calculated when an institution changes from freestanding to become a location of another institution, when an institution changes from a location of one institution to a location of another institution, and when two or more freestanding institutions merge.

AVERAGE: The cohort default rate calculated for institutions that have fewer than 30 borrowers entering repayment for the fiscal year being calculated and that have three consecutive years of default data. The rates for each of the three years are added and divided by three to obtain the average rate. An average rate is an official rate for a school and determines the action that a school must take.